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Our monetary system, the fallacies on which it is...

Liverpool

1863

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BY WHICH

COMMERCIAL PANICS

CAN BE PREVENTED, &c.

BY R. WEBSTER.

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1863.

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TO

ROBERT A. MACFIE, Esq.,

PRESIDENT OF THE

LIVERPOOL CHAMBER OF COMMERCE,

ESTABLISHED "TO PROMOTE MEASURES CALCULATED TO BENEFIT THE
MERCANTILE AND TRADING INTERESTS OF THE COUNTRY,"

THIS PAMPHLET IS RESPECTFULLY DEDICATED

BY THE AUTHOR.

PREFACE TO THIS EDITION.

The attempt to deal with such a comprehensive question in the space of a few pages must necessarily be imperfect on many points, but I have endeavoured to treat the most important ones as clearly and concisely as possible.

In the first section I briefly point out the elements of the currency; the nature of our credit system; the long period the present system of regulation has been in operation; the fact that the Act of 1844 is based upon that system, and is merely an era in its existence; and the effects which the system has created on several occasions, both antecedent and subsequent to 1844.

The second section is entirely devoted to the object of exploding the theory upon which our present monetary system is based. With the theory the whole mass of assertions and assumptions falls to the ground, and this subject, which has been rendered apparently of an abstruse nature, is restored to its real state—that of an eminently practical one.

The third section treats of the proposed system. This system can be placed into operation without interfering with a single existing interest. Its efficacy on former occasions, when its partial application rescued commerce from a state approaching disorganization, carries with it irresistible weight; and if the remarks contained in the preceding sections are admitted, it will require nothing more to recommend it to impartial and intelligent minds.

Being the centre of the financial world, and the greatest of commercial nations, it is our duty to see that our monetary system is based upon a sound foundation, for not only does it affect ourselves, but it also affects the surrounding millions to whom we are, undoubtedly, morally responsible for any evils which our carelessness may inflict upon them. There is reason to believe that these evils have been enormous, and it is with this conviction, and for the purpose of assisting in the great work of raising our commercial system to as high a degree of perfection as possible, that I have ventured to submit these pages to the public.

R. W.

Liverpool, 30*th July*, 1863.

OUR MONETARY SYSTEM.

SECTION I.

I. Currency is an instrument employed in Commerce to facilitate exchanges. Commerce arose from the division of employments, and this division constitutes the basis of social organization. It increases the productiveness of labour; developes the powers of invention; and raises the well-being of the human race. It now exists to a greater extent than at any former period, and the whole world is rapidly becoming one great mart of Commerce. The extension of the principle and consequent exchanges renders nations more and more dependent on each other for the very means of subsistence, and nowhere is this the case to a greater extent than in this country. We have become a great workshop, and the labour expended on the product of the mine and the manufactory is the purchasing-power by which we command the products of every clime. We are more dependent on Commerce than any other nation, and must secure our well-being by extending our markets, and thereby rendering more elastic the powers of supply and demand, and by making as perfect as possible the machinery by which this vast system of exchange is conducted. It is with the latter point that our subject relates.

II. The Currency is an important part of this system: it enables exchange to be made with advantage, to a far greater extent than would otherwise be possible. The difficulties of the barter system would be so great as to form a complete barrier to all division of employments beyond a limited extent. At whatever point we may assume this barrier to stand, it is evident that all extension beyond it depends upon the Currency, and consequently, all advances in civilization which arose from this development of commerce rests in a great degree on this arrangement. We thus see that civilization itself is greatly dependent upon currency; and it is self-evident that in order to maintain civilization, the basis on which it rests must be made secure: defects in the basis will affect the superstructure; and we have here the solution of the question—*how it is that Currency has such a powerful influence on the social fabric.* It upholds the basis on which social organization rests.

III. The terms Currency and Money are, in relation to *our* circulating medium, now treated as synonymous. Originally the term Money appears to have signified a medium of exchange, possessing intrinsic value to the full extent for which it circulated; and the term Currency a medium possessing only representative value. The terms have, however, become merged, and those distinctions are now denoted by the compound terms, metallic-money and paper-money; metallic-currency and paper-currency.

They are treated in this manner by our best authorities, but it is impossible to adduce satisfactory authority on the point, almost every writer having treated the terms ambiguously. All writers are, however, at one on the point that both Currency and Money are things which perform the function of acting as a medium; they differ only with themselves and with each other as to what things do perform this function. Some authorities have confined the classification to coin and bank-notes, on the ground that there is a material distinction between bank-notes and other credit instruments; others, on the contrary, have included under the classification all those instruments which act as a medium to a considerable extent; and this appears to me to be correct. It is not necessary that the instruments should agree in every respect; all that is essential to a strictly scientific definition is that all those things which it embraces should possess the particular attribute which the classification denotes. The attribute in this case is that of acting as a medium of exchange to a considerable extent, and as this is the popular construction placed upon the terms, I shall adopt it.

IV. Our Currency consists of metal and paper. The Metallic Currency consists of the standard of value coined, together with silver and copper representatives.

The standard of value is composed of a compound of gold and copper, in the proportion of 22 parts of the former to 2 of the latter. This is called standard metal, and 123·274 grains of it constitutes our unit of value, the *pound.* The terms shilling and pence denote fractional parts of this unit of value, the former representing the 20th and the latter the 240th part. As the term implies, the standard of value acts as a measure, and is used as a common denominator to values. The advantage of referring all values to one particular value is

obvious. Value signifying the exchangeable relation of commodities, every article has as many different values as there are other commodities. Instead, however, of comparing values directly, all values are compared with a particular commodity, and thus indirectly compared with each other.

The standard of value and the sovereign consisting of the same quantity of metal, and, under our Mint regulations, being of the same value, the error has arisen of treating the terms *standard of value* and *currency* as synonymous, and some persons appear to think that there ought to be gold to the full extent to which the measure of value is employed. Nothing can be more absurd; the terms are perfectly disdinct. The whole wealth in the world might be expressed in the standard, although only a single atom of gold existed. This atom being used as a unit of value, it is impossible to conceive of any limit to the extent to which it might be employed as a point of comparison.

The advantage of using one commodity as a standard, as exchanges became frequent, and employing the same commodity as money, would be obvious. The commodities exchanged through the medium of money having to be compared with it in value, it is evidently far easier to employ the same commodity as a standard, than to employ one commodity as a standard and another as a medium. This combination of the two functions in one commodity does not, however, combine the functions themselves. As a measure of value, gold does not pass from hand to hand, but as currency it does; and the extent to which it can perform the function of currency depends upon its relative value, quantity, and the velocity at which it circulates.

Possessing intrinsic value in a high degree, gold is not well adapted for small currency, and the fractional parts are therefore represented by the inferior metals—silver and copper. The gold coins consist of the sovereign and the half sovereign; the silver coins represent the 4, 8, 10, 20, 40, 60, 80, and the 120th parts of the pound; the copper coins represent the 240, 480, and 960th parts. The gold coin circulates at its intrinsic value; the silver and copper, on the contrary, are merely tokens, circulating at a nominal value, and they consequently continue in the channels of circulation for a long period. The gold coins are exported, and melted down to a considerable extent; and the moment they lose a certain quantity of their weight, they cease to be a legal tender, and if presented at the Bank of England, are cut and purchased at their diminished value. The coinage mark merely certifies that they contain a certain quantity of standard metal, and being coined at the expense of the Government, they circulate at the Mint price, of £3 17s. 10½d. per oz.

I may here notice a very common error in regard to the expression, *price of gold*. Price signifying the value of things in currency, and gold constituting a part of the currency, the price of gold is apparently its price in itself; and as value signifies the exchangeable relation of any commodity with *other* commodities, the expression referred to is apparently a departure from the definition of value. In reality, however, this is not the case. Price is the value of commodities, not in bullion but in currency, and bullion being a commodity, its price signifies its value in the currency, of which coined gold constitutes a part. If the currency consisted entirely of gold, the price of gold would signify its value in coined gold, and not in bullion. As bullion is converted into coin at the Mint, free of charge to the applicant, its Mint price is simply the number of coins to which it is equivalent in weight and fineness. The price of gold is fixed, and necessarily so; but its value is perfectly free. The Mint price can be arbitrarily altered, by changing either the quality or quantity of metal contained in the sovereign; but it is obvious that any such changes would be highly unjust, and would constitute a change between the debtor and creditor part of the community. There is also a market price of gold. The delay and trouble attending the coinage being considerable, bullion dealers purchase the bullion at a little below the Mint price; and by an arrangement between the Government and the Bank of England, this difference is fixed at 1½d. per oz., which reduces the market price to £3 17s. 9d. per oz.

Although the Currency consists partly of these metals, all the metal is not employed as Currency. Only that portion which is performing the function, or is held for that specific purpose, is at any time Currency; and this is constantly fluctuating, to a greater extent than it otherwise would be, on account of there not being any seignorage charged on the coinage. A seignorage would act as a premium on the retention of the coin in the channels of circulation, and diminish the annual demand for coinage at the Mint, as it does in the case of silver and copper.

V. Paper Currency is constituted entirely of credit instruments. It appears to have originated in international transactions, where the expense and risk of transmitting bullion was very great, and gave rise to the use of Bills of Exchange. The transactions which are settled by Paper Currency, are merely a complicated system of set-offs. Intelligence and want gave rise to a division of employments, and it was

found to be economical to employ a quantity of capital to act as a medium of exchange. This was, however, a very expensive and cumbrous machine, and as civilization advanced, credit instruments were adopted as currency. A portion of the capital was thereby liberated, and turned into other channels of production. Credit, in this sense of the word, signifies a transfer of value on the condition of future payment; it is barter in a half state of completion; and it is the legal documents which these transactions evolve, that constitute a part of our currency. They are merely signs; and, acting as a medium, the exchanges are made without the intervention of any commodity possessing intrinsic value, and are completed on a complicated set-off system. In pure barter, the things are set-off against each other without the lapse of time; in those transactions which are conducted on the commercial system of set-offs, that is by book entries, time elapses, and the balances of the accounts are only paid in currency; and in the Paper Currency transactions, this is still the case, the only difference being that in the former case it is done by book entries, in the latter by the transfer of paper documents—a mere difference of method.

Bank Notes constitute the most important species of paper money. They are legal documents held by the creditors of the issuers. The position of the issuers continues the same, as long as the notes remain in circulation—they are debtors of the holders of the notes. Being issued by wealthy firms and corporations, they circulate freely, and perform the function very efficiently. They are not currency in the hands of the issuers, they are then merely legal documents, prepared for future use. Were the contrary the case, it would be correct to say that it is in the power of banks to create an unlimited quantity of currency by merely printing notes! The notes are merely credit instruments, and those in circulation constitute a part of the general fund of credit at that time in use.

The mere amount in circulation does not indicate the extent to which they are acting as currency; this depends upon the rate at which they pass from hand to hand, or as it is commonly expressed, *the velocity of circulation.* A £100 note changing hands ten times, evidently performs the functions to double the extent to what the same note changing hands five times does. In one case value to the extent of £1000 would have been transferred, in the other only to £500. This remark is equally applicable to all the other species of currency.

Bank Cheques constitute a species of paper currency; they are orders upon bankers for the payment of legal tender currency; they are drawn against deposits and advances, and if we assume that all advances are placed to the credit of the bank account, and debited to loan account, as is done by London bankers, we can then consider all cheques as drawn against deposits, and are then able to make the proposition that deposits constitute currency to the extent to which cheques drawn against them are settled by transfer. To say that deposits constitute currency to the full extent to which depositors are entitled to draw cheques, would be as absurd as we have seen the like proposition in regard to the printing of notes would be.

When the cheques are presented to the banker direct for payment, they have not acted as currency; the time during which they are in the hands of the payee, is merely an extension of the credit. If, however, the cheques are passed from hand to hand, or are settled by a system of transfer, then they have performed the function of currency—have acted as a medium of exchange.

The enormous amount of cheques which pass daily through the London Clearing House is settled in this manner: Each member of the Clearing House credits the other members respectively with the cheques, &c., received from them, and at the end of each day the balances are settled by cheques on the Bank of England, which being placed to the debit of one party, and the credit of another, the whole business of the clearing is transacted without the use of any other currency whatever. By this gigantic system of set-offs the greatest part of financial transactions are settled. If all parties were to keep banking accounts and make all their payments by cheques, there would be no requirement for any other species of currency for internal transactions.

Cheques perform the function on precisely the same principle as bank notes do. The notes are drawn by the banker himself, the cheques are drawn by the banker's customer; they differ in a few legal points, but this does not affect the classification. Cheques do not circulate so freely as bank notes, but this does not affect the classification; it signifies not whether the amount of currency constituted of cheques is being constantly reissued, or is being constantly renewed by fresh cheques.

Bank Drafts are of the same nature as cheques, and differ only in being drawn by one banker on another; they are currency in the same manner as cheques.

Bank Post Bills are also of the same nature; those drawn by the country bankers passing through the Clearing House.

Post Office Orders and Postage Stamps may also be considered as constituting currency to a slight extent.

Bills of Exchange also constitute a part of our currency. All bills do not however act as currency. Being generally made payable at a London Banking House, they are sent to London for collection, and are settled through the Clearing House in the same manner as cheques. There is a slight difference in the method of payment: bills are generally paid by a special order from the acceptor to his banker, whereas cheques are themselves the orders for payment. It may be objected to the treating of these bills as currency, that the order to retire them is the real payment, and that the bills are merely given up on payment in the same manner as other securities. Strictly speaking, this objection is valid, but as it merely substitutes cheques for bills, it is of no importance, and as a matter of classification we may treat these bills as the currency.

In London, bills are treated as cheques on the acceptor's banking account, and, in this case, are undoubtedly currency.

Bills constitute the greatest part of international currency. In this case, however, a class of men make it an especial business to deal in bills in these transactions, and, as the bills form the staple of their trade, it is not strictly correct to treat the bills as currency; they are bought and sold for the purpose of profit, and fluctuate in value. We have here a new set of phenomena, which I shall again have occasion to notice.

VI. I have now completed the enumeration of the various species of Currency. We have seen that the greatest part of it consists of credit instruments. Currency and credit are seen to be, to a great extent, identical, and I will now proceed to point out more closely, the nature of this connection, and the manner in which the present system of regulating the Currency produces pressures and panics.

The greatest part of our commerce is conducted on the credit system. Credit is given and received in all the great branches of trade, that is, transfers of capital are made on the condition of payment at a future time. Besides the capital belonging to those engaged in commerce a large supply is thrown into trade by the banking community. Bankers collect capital in innumerable small sums from the whole surface of society, and direct it into the channels of trade by lending it to merchants, manufacturers, and others, and this constitutes the most important part of the bankers' business. The greater part of the borrowed capital, and I may safely say the whole of the borrowed circulating capital, employed in trade, in this country, passes through the hands of bankers, as the responsible agents between the borrowers and the lenders, and banking is in this manner the very centre and support of our commercial system.

Bankers borrow capital on various conditions, but the greatest portion of banking liabilities is payable on demand. The whole of the Note liabilities, and by far the greatest part of the Deposits, are held on this condition. Millions of capital, nearly all of which is employed in commerce, are thus solely dependent on confidence. It is in the legal power of the real owners of a great part of our trading capital, to demand payment at any moment. Bankers, however, from the very nature of their business, calculate upon the maintenance of the confidence placed in them, and make almost all their advances on more or less permanent securities. Practically, therefore, it is absolutely impossible for bankers to liquidate their liabilities at any moment. They do not possess the legal power to call in all their advances on loans or discounts; and if they had the legal power, it would be impossible for their debtors to comply with such a demand. The capital, although principally employed as circulating capital, is nevertheless locked up in trade, and it would take a considerable length of time to complete the operations to which a large portion of it has been directed. Any extensive attempt to do this suddenly would defeat its object, and produce the most disastrous consequences; the very demand would paralyze the credit system and produce a colapse of commerce. It would create an intense rush of holders of produce, &c., to realize, and this, by depressing prices to a fearful extent, would involve thousands in ruin.

Banking, constituting the centre of the great credit system, should be made as perfect as possible. Previous to 1826, the legislature prevented the formation of large banking companies, other than the Bank of England, and the country was covered by numbers of small private banking firms. As a consequence, commercial credit was in the most unprotected state, and instead of bankers forming a support to credit, they were the first to succumb to the storms.

This piece of legislation was repealed in 1826, and large Joint Stock Banking Companies were permitted to be formed, and at the present time we have the finest and most perfect banking system in the world.

The Bank of England is the grand centre of our credit system. Her reserve of loanable capital is the common reserve of the whole country. Mercantile men place their reserves in the hands of bankers; the country bankers place theirs in the hands of the London bankers and bill-brokers; and these place theirs in the Bank of England. The Bank's reserve, by this means, is the common fund of the country, and almost the whole of the Bank's liabilities being payable on demand, she

occupies a very sensitive position. The reserves of the other section are treated, by that section in whose hands they are placed, as a certain class of deposits, and are to a considerable extent employed, and in that manner the aggregate sum of the reserves of each section is wonderfully diminished, and the real reserves bear but a very low fractional proportion to the whole nominal reserves. By reserves I mean that class of deposits which is kept at call, and which constitutes, especially with the London bankers, the greatest portion. The other classes of reserves held by bankers are Government-securities and cash; the former are generally marketable, but the sale is merely a transfer of cash from the buyer to the seller; the latter class consists chiefly of Bank of England notes, which, in relation to the central reserve, are in precisely the same position as deposits.

We thus see the delicate nature of the system on which our gigantic commerce is conducted. The credit system we have seen is the method by which the spare capital of one part of the community is turned into the channels of trade—the banking institutions absorbing it on the one hand and lending it out on the other. This constituting a part of the trading capital of the country, any derangements in it will produce derangements in trade; hence the necessity of rendering the credit system as perfect and firm as possible. It is evident, from the very nature of the case, that all things which have a tendency to disorganize these arrangements should, if possible, be counteracted and provided against. The present system of regulating the Currency is based on the contrary assumption, that pressures must, in these instances, be created.

The credit system rests upon *confidence.* The term has two significations in relation to this question: first, the trust which men place in each other's honesty and solvency; secondly, the trust which men place in the safety of the system. The latter appears to have been generally overlooked. Unless men had a moral certainty that the credit system was perfectly safe, and is of a permanent nature, and believed that they could safely rely upon it for the capital which their extended operations require, they would not place their fortunes in what would otherwise be a fearful vortex. In the majority of cases the capital obtained on credit is indispensible to the borrower's operations: a manufacturer, for instance, who has expended the whole of his own capital in machinery, &c., that is, in the fixed capital of his trade, is dependent on credit for his circulating capital, and if this is suddenly cut off, his operations are suspended. Fixed capital is useless without circulating capital; and the capital supplied by the credit system generally constituting the circulating capital of the borrowers, or at least a part of it, the fixed capital of the country is, to a great extent dependent upon it. The greatest part of that immense fund of capital which is supplied through the credit system, has placed the borrowers in a state of dependence; and although in ordinary times they can gradually contract their operations and refund the advances, yet on occasions of sudden and extensive demands this is impossible.

Now, the Bank of England being the centre of the credit system, the confidence in that system depends to a great extent on the ability of the Bank to support credit, and the present system of regulation by, under certain circumstances, destroying this ability, disorganizes on these occasions the whole system. The power of the Bank to grant accommodation is restricted, and made to fluctuate with the amount of bullion in her coffers. Whenever a drain of gold sets in, and her reserve is reduced to a low point, the system of regulation by forcibly contracting credit, intensifies the pressures and produces panic. Although the Bank may not have contracted her discounts, and the active circulation may not have been diminished in quantity, yet, the probability which the regulation creates, that she will be compelled shortly to have recourse to these measures, gives a shock to the whole system. All commercial men at once attempt to strengthen their position. In ordinary times there exists a large amount of credit afloat, in the form of book debts, and this is now placed upon bills and sent into the Bank for discount. The credits are in this manner transferred from the drawers of the bills to the Bank, and in its place the drawer has created a credit at the Bank, and thereby strengthened his position and rendered his assets more available. Besides this extra demand for discount on the Bank of England, there is another—the rest of the banking community are subject to similar demands, and themselves re-discount at the Bank. In 1857 the Bank's advances on private securities rose from £18,351,990, at which they stood on the 5th September, to £31,350,717, by the 25th November; the private deposits rising during the same period from £9,360,219 to £14,951,516. The system of regulation was suspended on the 12th November.

When once in motion, this disorganising operation advances at an increasing velocity. Bankers begin to realise that portion of their reserves which consists of securities; and this increase in the supply taking place at a time of a decrease in the demand, the price rapidly declines. The prices also of all those principal articles of commerce which are extensively held on credit, fall, and it becomes impossible to effect sales except at ruinous prices. There is always a large quantity of bills afloat, drawn against imports, on the consignees, which are met by the sale of the produce. The state of things rendering a fall in prices probable, there is a rush of holders to sell, but a scarcity of buyers, and the supply far exceeding the demand, prices fall, and commerce is suspended. It is useless to contend against facts, our credit system is of a most sensitive nature, and vibrates to its very centre the moment the restrictive principle comes into active operation.

The system of regulation also affects confidence, in the ordinary sense of that term. The solvent houses are liable to be involved by the failure of others, and the importance of sound banking institutions is then particularly seen; the failure of a bank involves in ruin a great number of those people who happen to be dependent upon it for support, or who happen to have their reserves in its hands. Consequently, distrust prevails, and cash reigns supreme in the marts of commerce: where almost nothing except bills previously existed, cash is the order of the day, and bills bearing the most respectable names are treated as so much waste paper. What is required is something that will satisfy clamorous creditors, or creditors who may become clamorous, and bills have for the time lost this magic power.

This combination of things which is produced by the restrictive principle, when at its height, constitutes a panic. High above the whole scene, however, towers a great bulwark of commerce, which even panic, with all its terrible power, cannot impair. Whilst the rest of the commercial world is rapidly succumbing to the storm, and leviathan houses are suspending one after another, and others are toppling over by the score, the Bank of England continues to possess the unbounded confidence of the country, and it requires nothing more to dispel the fearful gloom than an expansion of the credit of that institution. Immediately these floodgates are opened, the commercial vessel once more floats; the danger of falling to pieces, in which the withdrawal of credit had placed her, is destroyed; commerce survives, and society is preserved from—what? it is too fearful to contemplate!

This extraordinary system of regulating the currency is based upon an elaborate theory, which I shall presently examine. The object of the system is to make our mixed currency of metal and paper fluctuate, as a purely metallic currency would do. Our monetary system has been regulated on this principle for a long period. The rule of regulating the issues by the Foreign Exchanges was formally adopted by the Bank of England in 1827, and was partly acted upon even previous to the suspension of cash payments in 1797. It was adhered to as closely as possible, but had to be repeatedly abandoned in consequence of the evils which it produced. In 1844, however, it was embodied in a legislative enactment. It was contended at that time by the supporters of the principle, that the pressures and panics to which the country was subject, arose from a departure from the principle by the issuers of notes, and so Parliament, acting on the advice of these parties, determined to put the principle into systematical operation, and thereby prevent bankers from exercising any voice in the matter; limits were accordingly placed on the issues of bankers against securities, and all further issues being only allowed to be made against bullion. As the bullion fluctuates, therefore, the power to issue fluctuates, and I have already pointed out the effect of this regulation on the credit system.

The Act of 1844 only put the principle into systematic operation, the principle itself was in existence at the time, and in fact the system enacted was also in existence, as will appear from the following evidence of the Governor of the Bank of England, given before the Committee of 1848—

> "3690.—The separation of accounts took place in 1840. 3691.—We had the same distinction in the separation between the issue and the banking department that we have now; we considered that a certain amount was issued against securities, and a certain amount against bullion, and, as a matter of account, that amount was kept as separate as it is under the Act."

By dividing the Bank of England into two departments, the principle is made to produce its disastrous effects at an earlier stage of the drain, and we had a tremendous panic in October, 1847, when the bullion in the bank stood at £8,500,000. Had the Act been in operation in 1825 and 1839, those panics would have been far more intense, and have taken place sooner than they did. If the accounts had been kept on the present plan in 1839, the bank on the 3rd September would not have had a farthing in the banking department, and the circulation would then have been £1,490,000 above the limit. These panics, together with those of 1847 and 1857, were produced by the operation of the principle of restriction, and were each dispelled by its suspension—in 1825 and 1839 by the action of the Bank under the force of necessity, and in 1847 and 1857 by the Government suspending the principle in order to preserve the nation from bankruptcy.

This fact of the existence of the principle, previous to 1844, appears to have escaped the attention of writers on this question. The supporters of the system have taken advantage of this, and in answer to the charge that the Act produces pressures and panics, have adduced the fact that they occurred in this country previous to the enactment of the Act of 1844, and occur in other countries where the Act does not exist, and from this they draw the inference that the Act does not produce the pressures and panics.

In answer to this I contend that it is not the mere Act of 1844 that produces these disastrous phenomena, but the application of the principle on which the Act is founded. This was in operation previous to 1797; was adopted by the court of directors in 1827; was carried into practice on almost the present system in 1840, and operates in those countries in which the credit system is imperfect. Where there is no great supporter of credit, the principle naturally operates in time of pressure, but in this country, which possesses an institution in which the whole world confides, the case is different, and it is the principle which prevents the confidence from being used, that produces panics.

Great stress has also been placed on the panics of 1825 and 1839, as illustrative of the state of things previous to 1844. The Act was intended to prevent the re-occurrence of similar phenomena; but, instead of doing this, it has rendered pressures and panics more frequent and disastrous. This is easily and clearly accounted for: the Act merely placed into more perfect operation the principle which had produced the panics, and as a necessary consequence we have more perfect panics.

Perhaps, however, it will be more satisfactory if I adduce facts on this point, in proof that the restrictive principle produced the panics of 1825 and 1839; the objection will then be refuted, and the slight degree of importance which belongs to the Act of 1844 will be more clearly seen.

Panic of 1825. The drain of bullion commenced in the autumn of 1824, and was produced by a combination of causes. In the first place, both in order of time and effect, was the reduction of interest on the public funds. In 1823, the rate was reduced on £135,000,000, 5 per cent. stock; and in 1824, it was reduced on £80,000,000, 4 per cent. stock. This led to a spirit of speculation: holders to a considerable extent demanding a redemption of their bonds, rather than submit to the reduction in the rate. Immediately after this, followed the acknowledgment of the South American Republics by this country, and loans made by them, together with the inducement held out for mining operations. These causes and the state of the markets produced extensive speculation in general produce, and especially in the articles of wool, spelter, corn, and cotton. The speculation and rise in the price of cotton was very great. The imports had fallen off considerably in 1824, and it was the general opinion that there would again be a deficiency in the supply. The rise in price, however, upset the calculations of the speculators by producing enormous imports. The imports from Egypt and Italy alone, increased from about 1,400,000 lbs in 1824, to about 23,800,000 lbs. in 1825; and corresponding increases taking place in the supply from other countries, a great fall in the price took place, which brought down some of the speculators. This combination of causes, together with political discredit abroad, produced the adverse balance of trade and the efflux of bullion. The Bank finding an immense number of bills coming in, and the bullion diminishing, acted on the restrictive principle and declined to discount; and in July and August, 1825, began to contract the circulation. As a consequence, an intense pressure immediately set in. Commodities were re-shipped and bills drawn against them. The pressure created a general hoarding of money; an internal drain; and a restriction of credit throughout the country. Deputations from Manchester, Edinburgh, Glasgow, and other large towns, waited upon the Bank to solicit a liberal supply of money. Runs took place on several country bankers, many of whom suspended before the relief was afforded, and a fearful panic raged throughout the country. Now, mark the means by which it was arrested in its very progress. The principle of regulating the issues by the foreign exchanges was thrown overboard, and the Bank announced their willingness to grant assistance on proper security; and, suiting the action to the word, they at once established boards in Manchester, Sheffield, Liverpool, Glasgow, Birmingham, Huddersfield, Dundee, and Norwich, to make advances on the deposit of goods. Their circulation, which had been reduced from £19,686,570, at which it stood on the 15th October, to £17,477,290 by the 3rd December, was now increased, and on the 24th December, stood at £25,611,800; and on the 24th January, 1826, at £26,104,890. A portion of this great increase consisted of £1 notes. These, which stood at £383,610, on the 17th December, reached £1,148,570, on the 24th December. The discounts, which amounted to £5,000,000 on the 3rd November, were increased to £15,000,000, by the 29th December, and about £400,000 was advanced on the deposit of goods. By means of this enormous supply of credit, confidence was restored and panic dispelled; and this wonderful effect was created by a mere extension of the Bank's credit, at a moment when her stock of bullion stood at £1,027,000.

These facts fully confirm my remarks. The drain of bullion brought the principle into active operation, and the panic ensued—the principle was abandoned, and the panic vanished like a dream, leaving behind it, however, painful traces of its brief existence in the shattered fortunes of thousands. The preceding course of events fully accounts for the drain, and the subsequent events illustrate the practical effects of the two principles—destruction, and support of credit.

Panic of 1839. The drain of bullion set in in October, 1838, and the bullion, which on the 26th of that month amounted to £9,350,000, was reduced to £2,406,000 by the 3rd of September, 1839. This protracted drain was produced by extensive purchases in this country of American securities, railway expenditure, and the heavy imports of corn. The imports of wheat and flour had been increasing for several years; they amounted to 750,808 qrs. in 1835, 861,156 qrs. in 1836, 1,109,492 in 1837, 1,923,400 in 1838, and to 3,110,729 in 1839; while the export fell from 308,420 in 1837, to 42,512 in 1839. The price also advanced from £1 19s. 4d., the average of 1835, to £3 10s. 8d., the average of 1839. These figures speak for themselves.

Towards the middle of the drain it was intensified by the state of alarm on the continent regarding the ability of the Bank to maintain cash payments, and in consequence of this, a large amount of bills drawn on this country were suddenly thrown into the markets, and presented to the Bank for discount. On the 20th June the Bank rate was raised from 5 to 5½ per cent., and on the 1st August to 6 per cent. Attempting to adhere to the principle and restrict the circulation, the Bank, in August, sold a large portion of its Public Securities, and afterwards tried to sell a portion of the Dead Weight, but not being able to obtain a satisfactory price, they borrowed £750,000 Exchequer Bills from the East India Company, a portion of which they sold. Finding that the drain continued and the pressure increased, the Bank at last abandoned the Principle of Regulation; and to prevent the total suspension of commerce, they opened credits on the continent, and by that means operated directly on the Exchanges. Bills were drawn at three months' date by Messrs. Baring's on Paris, and by other houses on Amsterdam and Hamburgh, to the extent of £2,500,000, for which the Bank undertook to provide, and guaranteed, by a deposit of a portion of the dead weight. These bills being thrown into the market, at once arrested the drain to those places, and the country was saved. Public credit was thereby supported, panic dispelled, and confidence restored. The bills were settled partly by the transmission of *bona fide* bills and partly by bullion, and were completely liquidated by April, 1840.

Here again we have a repetition of events. The drain, produced by specific causes, brought into operation the restrictive principle, and pressure and panic ensued—the principle was abandoned, credit was supported, panic was arrested, and confidence was restored.

The panics of 1847 and 1857 are well known, and have been analysed by a thousand pens. The supporters of the system do not attempt to deny the effects of the principle in these cases. Indeed, one professed object of the Act is to produce early and gradual, in order to avoid late and sudden, pressure, and its supporters contend that pressure, so far from being an evil, is, on the contrary, a positive good. "Pressure," says Lord Overstone, "is necessary as a means for correcting adverse exchanges. The degree of pressure requisite for that purpose is not an evil, but a merit, in any system for the management of the Currency." *Commons' Report*, 1848, Q. 1514. Now, the Act not only produces early pressure, but unfortunately it also produces sudden and intense pressure, or panic. I admit that this was not the object of the Act; but, nevertheless, we must not close our eyes against the actual effect which it does produce.

I will not trespass on the time of the reader by adducing quotations in support of the foregoing remarks. One thing is certain: As long as the present system continues in operation, pressures and panics will occur. An extensive reduction in the Bank reserve brings the principle into active operation, and I have pointed out the results. Perhaps I cannot do better than adduce the opinions of a few authorities on this point.

> "The function of banks in filling up the gap made in mercantile credit by the consequences of undue speculation, and its revulsion, is so entirely indispensable, hat if the Act of 1844 continues unrepealed, there can be no difficulty in foreseeing hat its provisions must be suspended as they were in 1847, in every period of great commercial difficulty, as soon as the crisis has really and completely set in."—*J. S. Mill, Principles of Political Economy, vol.* 2, *page* 215.

In the debate of 11th December, 1857, Mr. Gladstone said:—

> "The Bank Act had failed on two occasions, and it could not stand as it was. They must look for a continuance of these crisis, and he could not consent that hey should be habitually met by a breach of the law of the land. The Act of 1844, which was damaged in 1847, was totally shattered in 1857. Lord Overstone had himself expressed an opinion that the time had now come when some elastic provisions should be inserted in the Act of 1844, to meet the pressure of a commercial panic.
>
> "The Committee have consequently felt it to be their duty to enquire into the course pursued by the bank acting under the provisions of the 7 and 8 Vict., c. 32, and they have come to the conclusion that the recent panic was materially aggravated by the operation of that statute, and by the proceedings of the bank itself. This effect may be traced directly to the Act of 1844, in the legislative restriction imposed on the means of accommodation, whilst a large amount of bullion was held in the coffers of the bank, and during a time of favourable exchanges; and it may be traced o the same cause indirectly, as a consequence of great fluctuations in the rate of discount, and of capital previously advanced at an unusually low rate of interest."—*Report of the Lord's Committee*, 1847.

A severe drain of gold may, under the present system, at any time prostrate the commercial community, and involve them in all the horrors of a commercial panic. The power of the bank to grant accommodation being made to fluctuate with the amount of her bullion, the drains, from whatever cause they may arise, bring the restrictive principle of regulation into operation, and a collapse of the credit system follows. It is not the drains which produce this effect but the system of regulation which makes our commerce dependent upon the existence of a stock of bullion at a single point. With an aggregate foreign trade of upwards of 450 millions per annum the drain of a few millions of a single commodity—gold—cannot, by any means, be considered as an extraordinary event, and yet such an occurrence is made to disorganize the whole commercial system, and involve in ruin hundreds of solvent and respectable firms. As our commerce is extending this question is assuming gigantic proportions and momentous importance. Suspensions of commerce become more and more intense in the evils which they inflict, and it is the desire of all classes that these dreadful phenomena should, if possible, be prevented.

The system of regulation is condemned as a practical measure by the whole nation, and it has been repeatedly repealed in order to rescue us from a state of things which its operation had produced, and was producing; but the theory on which it is based not having been systematically confuted, the system has been again and again re-established to be again and again suspended. The theory has been enrolled under the banners of science; and in this great age of reason we have committed the most unreasonable folly of passing by, unquestioned, a theory on which a system dealing with one of the most important of human interests is based; a theory which I believe to be the most fallacious and unsound that has ever deluded the human race, and which I will at once proceed to explode.

SECTION II.

I. The doctrine on which the system is based is thus laid down by Lord Overstone :—

> "The sole duty to be performed in regulating a paper currency is to make its amount vary as the amount of a currency exclusively metallic would vary under the same circumstances."—*Reflections on the Money Market*, 1837.

This proposition is itself based on the economical principle that the market value of commodities is determined by the laws of supply and demand. This abstract principle constitutes the premiss of the theory, and the doctrine is deduced from it by the following train of deductive reasoning :—

Gold being subject to the laws of supply and demand, it follows that the value of a mixed currency convertible into, and therefore of the same value as gold, is also determined on the laws of supply and demand; increases in the currency will therefore, through the action of those laws, lower its value, and decreases will raise its value.

An increase of our currency, by lowering its value or raising the whole range of prices, stimulates imports and diminishes exports, thereby producing an adverse balance of trade and an efflux of gold.

A decrease, on the contrary, by lowering prices, diminishes imports, and stimulates exports, thereby creating a favourable balance of trade and an influx of gold.

A purely metallic currency fluctuating in quantity with the exchanges would contain in itself the principle of correction. The fluctuations in its quantity, by affecting its value or prices, would constantly tend to preserve it in a state of equilibrium, and secure us our share of the metal, and it would not require any management on our part whatever. A mixed currency of metal and paper, on the other hand, requires special regulation. If, when gold is flowing out of the country, its place is filled by an extended issue of bank notes, the laws of supply and demand will thereby be counteracted, and we shall have no means of preventing a complete drain of all our gold. The notes, by preventing the rise in the value of the currency from taking place, will prevent the principle of correction from coming into operation, and the drain will continue: the convertibility of the note will be lost, and a state of national bankruptcy will ensue. If, on the other hand, when gold is flowing into the country, it is kept out of the channels of circulation, the value of the currency will not fall or prices will not rise, the exchanges will not be corrected, and we shall have no protection against a complete inundation of gold, and no means of arresting the flow.

Hence the doctrine: A mixed currency must be made to conform to a metallic currency in quantity, and then and then only will the regulation be sound.

Accordingly, proceeding on the assumptions that the currency consists of gold and bank notes only, and that the Bank's reserve fluctuates precisely as the exchanges, (both of which assumptions are false), a limit is placed on the extent to which banks may issue against securities; all further issues beyond that point being based on gold. As the Bank's reserve of gold fluctuates, therefore, its power of issue also fluctuates in precisely the same manner.

I shall afford ample proof that this is a correct statement of the theory, in the course of my remarks.

The principle that supply and demand determines the market prices of commodities, is an abstract truth of political economy, and is, I admit, applicable to the currency, but I contend that the theory is a fallacious deduction. It involves, as I shall directly show, the assumption that the value of gold is constantly fluctuating, and unless this assumption is correct, the whole theory falls to the ground.

II. Before proceeding any further, I will in the first place point out the various meanings of the term *value*, as this word stands on the very threshold of the question.

Value signifies the exchangeable relation between commodities (employing the word commodity to represent anything which possesses value). Intrinsic value signifies that value of a commodity which depends upon its own cost of production, &c. Extrinsic value signifies that which depends upon the cost of production, &c., of the commodities for which it is exchanged. A change in the intrinsic value of one commodity, constitutes a change in the extrinsic value of all other commodities. For instance, if we suppose a rise to take place in the intrinsic value of iron, that is, in its cost of production, &c., all other things remaining the same, a given quantity of it will purchase more of all other commodities, or all other commodities will purchase a less quantity of iron. The change in the intrinsic value of the iron will have disturbed an extrinsic value of all other commodities. Commodities are therefore subject to fluctuations in value, from two distinct sources—1st, changes in their own intrinsic value; and, 2ndly, changes in the intrinsic value of other commodities. The former is general: it extends over the whole range of values, and changes the relative value of the commodity in whose intrinsic value the change has occurred, with all other commodities; the latter is specific: it affects the value of a commodity only in relation to that in which the change has taken place. All changes in value arise from a change in some intrinsic value, but this division of values into intrinsic and extrinsic, enables us to determine in which articles the changes in value originate, and will be found of essential importance in this discussion.

Value is also divided into general and specific. General value is the value of a commodity in any other commodity. Specific, its value in some given commodity. The value of things in the Currency is of the latter class, and is termed price. Price is a species of value, there being as many species as there are different commodities.

Value has, in the popular sense of the term, two meanings in relation to money—1st, the exchangeable value of money; and, 2ndly, its loanable value, or, more strictly speaking, the rate of interest.

III. Now, as already stated, the theory involves the assumption that the intrinsic value of gold is constantly fluctuating. This assumption is not stated in the direct train of reasoning which I have pointed out, but in the assumptions which the system involves. The system is not altogether based on the theory, but also on a mass of assumptions which have been mistaken for the theory, and I shall point out when I come to deal with those assumptions, that this one is a fundamental assumption which the others involve, and on which the system rests.

The first question which presents itself is: In what manner and how often does the Currency fluctuate in quantity?

Fluctuations take place in the Foreign Exchanges every day, and almost every hour; and there is not a breeze in any part of the globe that does not affect them by speeding or retarding our merchant ships. A stream of gold is constantly flowing through this country, going to and coming from the same and different parts of the world: from this source, alone, therefore, fluctuations in the value of gold would, according to the theory, be innumerable.

Apply the assumption to our internal transactions, and to what does it lead? Changes in the supply and demand, it asserts, *produce* changes in the value of the Currency. What! is it possible for such an assumption to exist? Why, the demand for Currency is changing every moment, and do all these changes then affect its value? The supply is equally changeable, and do these changes affect its value also? If so, then, indeed, the value of gold, or, in other words, the whole range of prices, is of a very volatile nature. If this is the case, how is it that all Political Economists have been unanimous in the opinion, that gold is more steady in value than any other commodity, and have advanced this as a reason why gold is especially adapted to act as a standard of value. Either they have all committed an error, or the assumption we are examining is erroneous.

I am not exaggerating. The system actually involves the assumption that gold is *constantly* fluctuating in its intrinsic value; and the principal supporters of the system have not hesitated in attributing effects to this assumed cause, and they have actually assigned an increase in the notes as this cause, when, in fact, as Mr. Tooke has shewn, the increase did not exist—the bank notes were not higher. They assumed the increase to have taken place, and recklessly advanced the assumption as a fact.

I appeal to the commercial classes—to all men who are in the habit of calculating values—does experience confirm the assumption? Is it possible, or is it impossible, to estimate future values and conduct business? and I ask, whether the whole range of prices is simultaneously constantly fluctuating or not? I think it is universally admitted, that the value of gold is more steady than that of any other commodity; that it is altogether free from constant changes, and that any changes which do take place, require powerful causes and long periods of time to produce them. Changes in the standard are not contemplated in contracts, because experience has proved the metal to be so entirely free from frequent changes, that it acts between short periods as a perfect standard. The greatest authority on the point in the world, Thomas Tooke, has placed it beyond all reasonable doubt, that the popular opinion is correct:—

> "The conclusion, then, at which we arrive is, shortly:—That the total stock of gold in various forms in Europe and America at the close of 1848 was 560 millions sterling; and that the *aggregate* of the annual additions to that total stock from California, Australia, and Russia, during the eight years, 1849—56, have been 174 millions sterling, or equal (as already explained) to an addition of 27 per cent."—*History of Prices, vol.* 6. *p.* 154.

> "It has been made apparent, that at the entrance of this ninth year, 1857, after the commencement of the great influx in 1848, it is impossible to affirm that the range of the general prices has been sensibly raised, by the mere operation in the form of metallic money, of 160 or 170 millions of new gold introduced into the commercial world. It has appeared, that all the instances of an important variation in price, comparing 1857 with 1851, admits of being accounted for by circumstances affecting the supply or the demand."—*Vide p.* 224.

> "As a matter of fact, we have seen that it is not true that even an increase of one-third of the quantity of metallic money has lead to a corresponding increase of general prices; nor, in the case of large groups of commodities, to any increase of price whatever; but on the contrary, that prices have rather sunk to a lower than risen to a higher level. As a matter of general reasoning, it may be said that the

abstract argument which urges the constant dependence of the range of prices on the quantity of money, is, on several grounds, a conspicuous example of the fallacious inferences which arise from the treatment of economical questions in the same manner as problems in geometry."—*Vide p.* 194.

These propositions are founded on one of the most elaborate inductions from facts ever made; and one great object of Mr. Tooke, is to prove that the assumption we are examining is false; and what comparison, I ask, is there between a reckless assumption, and the stupendous work by which it is so completely confuted.

If, then, these enormous fluctuations in the supply have only produced such slight effects, what are we to think of a system which is based on the assumption that the laws of supply and demand are constantly producing changes in the value of gold? What! Commerce—Credit—Currency, governed on an erroneous and hypothetical system which clashes with the most common facts. Is it possible that statesmen, philosophers, and practical men, should have supported, on these grounds, a system which tends directly to the destruction of commerce! It is almost incredible, but facts are stubborn things, and it is well for the world that they are so: truth must prevail in spite of all obstacles.

This error, which has been the cause of so much suffering and injustice to thousands, appears to have arisen partly from gross carelessness, and partly from the ambiguousness of the term *value.* It has, as already pointed out, a double meaning in relation to money—exchangeable, and loanable value.

The exchangeable value, although determined by the laws of supply and demand, is steady, because the changes in the supply and demand, &c., are not sufficiently powerful to produce fluctuations. The loanable value, on the contrary, or correctly speaking, the rate of interest, is of a fluctuating nature; the supply and demand of loanable capital being sufficiently changeable to effect the rate of interest. The two values are perfectly distinct. The market value, in fact, depends upon the supply and demand of capital; but this being indicated by the Bank's reserve, and the loans being made through the medium of money, superficial observers have committed the blunder of confounding the one meaning with the other.

Now, the whole system rests on this erroneous assumption. Unless a drain of gold indicates a depreciation of our Currency, the system counteracts a nonentity. It restricts the issue of notes, for the express object of preventing the currency from maintaining an assumed depreciation. If, therefore, the assumed depreciation does not really exist, the system does, what? it inflicts enormous losses on the mercantile community, disorganizes capital, trade, and labour, for a mere shadow.

It is true that an increase in the quantity of Currency has a tendency to lower its value, but this does not afford sufficient grounds for the assumption that it actually does produce that effect; a thousand things may counteract the tendency, and as a matter of fact this is the case. It may be contended that, for anything shown to the contrary, an increase in the Currency is the effect of an increased demand. It may also be contended, that an increase has an immediate tendency to raise its value. If the increase arise from an import, and it flows into the Bank of England, if powerful enough, it lowers the rate of interest; it constitutes an increase in the loanable power of the Bank, and of the available capital of the country; and, entering into competition for employment with the capital previously in the market, it lowers the rate of interest on the whole mass. The fall in the rate of interest has a tendency to lower all prices. Interest constitutes an element in the cost of production; and the fall in the rate, therefore, lowers this cost. If we suppose that all branches of production afforded a fair rate of profit previous to this change, the rate of profit would now be raised above that point. This rise in the rate of profit, would bring into operation counteracting forces; it would produce an absorption of the capital seeking employment, by an extention of trade, and this increased competition would tend to lower prices by reducing the rate of profit. The increased demand for capital would, however, now tend to raise the rate of interest, increase the cost of production, and raise prices to that point, where the whole of the capital could be profitably employed. The final result would therefore be, that prices would rest at a point of equilibrium. Thus, by a train of reasoning, based upon economical principles, it may be proved that the effect of an increase in Currency, is to *raise* its value or *lower* prices. I do not, however, assert this to be the case; I merely adduce it as an illustration of the true value of hypothetical reasoning. It does not allow for the counteracting effects of the operation on wages, the cost of the raw material, &c., and is therefore defective. It might further be contended that large capitalists can, other things being equal, compete in the market more successfully than smaller capitalists—that production is conducted cheaper on a large than on a small scale, &c., and that as nations are competing in the general market of the world, an increase of capital is a national advantage.

We thus see that an increase of gold tends to bring into operation many different tendencies. As a matter of fact, however, they are counteracted, and the intrinsic value of gold does not constantly fluctuate. The actual effect, which increases in its quantity, tends to produce this :—The fall in the rate of interest affects the value of some articles sooner than that of others. There are some articles more sensitive to its influence than others; and public securities rank the first in this respect. The rate of interest constitutes an element in their price.

"The rate of interest determines the value and price of all those saleable articles which are derived and bought, not for themselves, but for the income which they are capable of yielding. The public funds, shares in Joint Stock Companies, and all descriptions of securities are at a high price in proportion as the rate of interest is low."—*J. S. Mill, Principles of Political Economy, vol.* 2, *p.* 199.

The fall in rate of interest (all other things remaining the same) produces a rise in the price of these securities. This disturbs the equilibrium of their price between this and the continental markets, and produces two effects :—1st, sales in our market by foreign holders, for purposes of investment at home. And 2ndly, sales by holders in this country, for the purpose of foreign investments; in short, it creates a flow of capital to foreign countries, in the purchase of securities.

"It must not be understood, however, that considerable differences between the rates of interest in various commercial countries have no effect in equalizing the supply of capital among them. The contrary is the fact. But the equalization is brought about, not by the transmission from one country to another of bills to be discounted, but by the purchase by one country in another of securites which have become depressed by a violent or continued rise in the rate of interest. In other words, certain classes of dividend-bearing securities, of the country where the high rates of interest prevail, fall, in effect, into the category of its exports, and the remittances received for payment of these exports tend to equalize the supply of capital."—*Tooke and Newmarch's Hist. of Prices, p.* 314, *vol.* 5.

This points out the effect of a rise in the rate of interest. The fall in the rate, and the consequent investments abroad, turns the balance of trade against this country, and assuming the exchanges were previously at par, and other things have remained the same, an efflux of gold ensues in liquidation of the adverse balance; and the consequent decrease of the capital here and the increase abroad, produces the equilibrium in the rates of interest and in the price of securities.

General prices are not affected, but the prices of securities only. This does not, however, hold good under all circumstances; but only under that state of things which the assumption we are examining assumes to exist. If, at the time that the increase in the gold takes place, the exchanges are against this country, gold will flow out in settlement of the exchanges, and the influx be thus counteracted by the efflux. The efflux would in this case have counteracted the

tendency of the influx to lower the rate of interest, &c., and this would really be the effect which it silently produced.

The effect of an influx cannot, however, be predicated without a knowledge of the state of things existing at the time. If capital was scarce, it would produce different effects to what it would produce if capital was abundant—if interest was high, than if it was low—if the exchange was favourable, than if it was unfavourable, &c.; and it is a matter of impossibility to predicate the effect, without a knowledge of the elements of the case.

As a matter of reasoning, therefore, it is unnecessary to pursue this branch of the subject further, the whole theory falling with its premises; but it may not be altogether useless to examine a few of the assumptions which are involved by the system. The explosion of these may perhaps tend to restore this subject into the domain of practical subjects, from which it has apparently been severed by a mass of fallacies.

IV. In the next place, then, the system involves the assumption, that gold flows from one country to another, only because of a difference in its value; and also that an unfavourable exchange and flow of gold, is a proof that the Currency is depreciated. The former assumption involves the latter, and they are merely different ways of stating the same proposition: if gold flows only from the assigned cause, then of course the presence of the effects of that cause, proves the existence of the cause itself.

The assumption (I treat the two as one,) is of vital importance to the system. If flows of gold take place from other causes, the system is indefensible. It treats all drains in the same manner, and assumes that they are all of one nature; and if this treatment and assumption are erroneous, the system is also erroneous. This is admitted by the advocates of the system, and they have laid down the proposition in bold and clear terms.

"The fact of the exchange being depressed, and of gold continuing, for any considerable period, to be demanded from the bank and exported, is, independently of all other considerations, a conclusive proof that the Currency is redundant as compared with the Currency of other countries." "Bullion, like other commodities, is exported only when its exportation is profitable. It is never sent from England to France or America unless it be more valuable in these countries than here."—*J. R. McCulloch, Wealth of Nations, pp.* 493-4.

"Money is exported from the country in preference to other commodities only because money is in excess, and is therefore cheaper here than in other countries. But this excess of quantity is soon corrected, and the money of this country restored to an equality of value with the money of other countries by the export of gold, provided the place of the gold thus exported be not supplied by new issues of paper money."—*Lord Overstone's Evidence*, 1857, *p.* 15.

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counteracted, and the intrinsic value of gold does not constantly fluctuate. The actual effect, which increases in its quantity, tends to produce this:—The fall in the rate of interest affects the value of some articles sooner than that of others. There are some articles more sensitive to its influence than others; and public securities rank the first in this respect. The rate of interest constitutes an element in their price.

> "The rate of interest determines the value and price of all those saleable articles which are derived and bought, not for themselves, but for the income which they are capable of yielding. The public funds, shares in Joint Stock Companies, and all descriptions of securities are at a high price in proportion as the rate of interest is low."—*J. S. Mill, Principles of Political Economy, vol.* 2, *p.* 199.

The fall in rate of interest (all other things remaining the same) produces a rise in the price of these securities. This disturbs the equilibrium of their price between this and the continental markets, and produces two effects:—1st, sales in our market by foreign holders, for purposes of investment at home. And 2ndly, sales by holders in this country, for the purpose of foreign investments; in short, it creates a flow of capital to foreign countries, in the purchase of securities.

> "It must not be understood, however, that considerable differences between the rates of interest in various commercial countries have no effect in equalizing the supply of capital among them. The contrary is the fact. But the equalization is brought about, not by the transmission from one country to another of bills to be discounted, but by the purchase by one country in another of securites which have become depressed by a violent or continued rise in the rate of interest. In other words, certain classes of dividend-bearing securities, of the country where the high rates of interest prevail, fall, in effect, into the category of its exports, and the remittances received for payment of these exports tend to equalize the supply of capital."—*Tooke and Newmarch's Hist. of Prices, p.* 314, *vol.* 5.

This points out the effect of a rise in the rate of interest. The fall in the rate, and the consequent investments abroad, turns the balance of trade against this country, and assuming the exchanges were previously at par, and other things have remained the same, an efflux of gold ensues in liquidation of the adverse balance; and the consequent decrease of the capital here and the increase abroad, produces the equilibrium in the rates of interest and in the price of securities.

General prices are not affected, but the prices of securities only. This does not, however, hold good under all circumstances; but only under that state of things which the assumption we are examining assumes to exist. If, at the time that the increase in the gold takes place, the exchanges are against this country, gold will flow out in settlement of the exchanges, and the influx be thus counteracted by the efflux. The efflux would in this case have counteracted the

tendency of the influx to lower the rate of interest, &c., and this would really be the effect which it silently produced.

The effect of an influx cannot, however, be predicated without a knowledge of the state of things existing at the time. If capital was scarce, it would produce different effects to what it would produce if capital was abundant—if interest was high, than if it was low—if the exchange was favourable, than if it was unfavourable, &c.; and it is a matter of impossibility to predicate the effect, without a knowledge of the elements of the case.

As a matter of reasoning, therefore, it is unnecessary to pursue this branch of the subject further, the whole theory falling with its premises; but it may not be altogether useless to examine a few of the assumptions which are involved by the system. The explosion of these may perhaps tend to restore this subject into the domain of practical subjects, from which it has apparently been severed by a mass of fallacies.

IV. In the next place, then, the system involves the assumption, that gold flows from one country to another, only because of a difference in its value; and also that an unfavourable exchange and flow of gold, is a proof that the Currency is depreciated. The former assumption involves the latter, and they are merely different ways of stating the same proposition: if gold flows only from the assigned cause, then of course the presence of the effects of that cause, proves the existence of the cause itself.

The assumption (I treat the two as one,) is of vital importance to the system. If flows of gold take place from other causes, the system is indefensible. It treats all drains in the same manner, and assumes that they are all of one nature; and if this treatment and assumption are erroneous, the system is also erroneous. This is admitted by the advocates of the system, and they have laid down the proposition in bold and clear terms.

> "The fact of the exchange being depressed, and of gold continuing, for any considerable period, to be demanded from the bank and exported, is, independently of all other considerations, a conclusive proof that the Currency is redundant as compared with the Currency of other countries." "Bullion, like other commodities, is exported only when its exportation is profitable. It is never sent from England to France or America unless it be more valuable in these countries than here."—*J. R. McCulloch, Wealth of Nations, pp.* 493-4.

> "Money is exported from the country in preference to other commodities only because money is in excess, and is therefore cheaper here than in other countries. But this excess of quantity is soon corrected, and the money of this country restored to an equality of value with the money of other countries by the export of gold, provided the place of the gold thus exported be not supplied by new issues of paper money."—*Lord Overstone's Evidence*, 1857, *p.* 15.

"Gold will not leave this country unless gold be dearer in some other country than it is in this."—*Sir Robt. Peel's Speech in the House*, 6th *May*, 1844, *on the introduction of the Bank Act.*

Nothing can be more decisive than this language, and it would be an injustice to these authorities, if we did not clearly show the grounds on which they support the system.

Now, fluctuations in the exchanges and flows of gold, are constantly taking place; these propositions state that these fluctuations and flows arise from changes in the value of gold; they therefore involve the assumption that the value of gold is constantly fluctuating.

We have already examined this assumption, and found it to be erroneous. As a matter of fact, these assumed fluctuations in the intrinsic value of gold do not take place; the exchanges are constantly fluctuating, and gold is constantly flowing; therefore, the exchanges and the flows of gold must be affected by other causes than the one assigned, and a reference to facts proves this conclusion.

Gold flows from country to country on two distinct principles; in the first as an ordinary commodity, and in the second as Currency. In both cases it is bought and sold, and paid and received at its intrinsic value. The consumption of the metal in various branches of manufacture is very great, and this is abstracted from the general stock which exists in every country. The demand for consumption may, in the absence of any data on the point, be assumed to be steady, and we may also safely assume that the supply and demand is in a state of equilibrium; that is, that trade is so adjusted, that the quantity of gold required for this purpose, is distributed in the same manner as all other commodities.

As Currency, it flows between different countries on precisely the same principle as it flows between individuals in the same country; in fact, it is flowing between individuals in both cases. From a commercial point of view, the world is a great mart, in which the various products of different climes are exchanged, and in which gold constitutes a part of the Currency. The existence of monopolies, restrictions, &c., on the trade between nations, has lead to the opinion that exchanges are conducted on a different principle between nations than between individuals, but this is not true. Restrictions, monopolies, &c., exist at home, and to a great extent necessarily so, but no one for a moment thinks of saying that these alter the principle on which exchanges are conducted. The method, or the extent, may be altered by the existence of these things, but the principle is the same. Gold is, both nationally and internationally, employed as a medium of exchange, in addition to the other purposes to which it is directed. As Currency, it is not dealt in for consumption—as a staple of trade—as the ultimate satisfaction of an exertion—but simply as a medium of exchange. The international Currency consists of bills of exchange and the precious metals, but the latter are only employed when there exists a scarcity of the former.

The flows of gold which take place as international Currency may be divided into two classes: first, the ordinary, and second, the extraordinary.

By ordinary flows, I mean those which arise in the ordinary course of trade. For instance, a stream of gold is constantly flowing through this country, coming from gold-producing countries, and going to other parts of the world, and as we possess the trade of Australia, the stream is very great. We treat it as Currency, receiving it in payment for a portion of our exports, and paying it away in the purchase of a portion of our imports. Our trade has adapted itself to this system, and the supply and demand on this account is very steady, the streams being of equal depth. Australia treats it as a product, in the same manner as we treat our iron; and the countries to which we pay it away treat it, to a great extent, as an ordinary import for consumption. These two parties are at each end of the stream, and our trade is the channel through which it flows; but the motives for which they use it, does not affect its relation to ourselves. To us it is a medium of exchange, and we employ gold for this purpose in our foreign trade to a greater extent than any other nation. The imports of gold and silver in 1862 amounted to nearly £22,000,000, and the exports to more than £21,000,000.

By extraordinary flows, I mean those which are produced by extraordinary causes. Such, for instance, as those arising from foreign loans and enterprises; great imports of food, in consequence of deficient harvests; sudden increases in the imports of the raw material of our manufactures, in consequence of political disturbances abroad, and numerous other causes of a similar nature. They are thus pointed out by J. S. Mill:—

"But an exportation of the precious metals often arises from no cause effecting currency or credit, but simply from an unusual extension of foreign payments arising either from the state of the markets for commodities, or from some circumstance not commercial. In this class of causes, four, of powerful operation, are included, of each of which the last fifty years of English history afford repeated instances. The first is that of extraordinary foreign expenditure by Government, either political or military, as in the last war, and particularly in the latter years of it. The second is the case of a large exportation of capital for foreign investment: such as the loans and mining operations, which partly contributed to the crises of 1825; and the American speculations, which were the principal cause of the crisis of 1839. The third is the failure of crops which supply the raw material of important manufactures: such as the cotton failure in America, which compelled England, in 1847, to incur unusual liabilities for the purchase of that commodity at an advanced price. The fourth is a bad harvest, and a consequent importation of food, of which the years 1846 and 1847 present an example surpassing all antecedent experience."—*Principles of Political Economy, vol. 2, p. 215.*

Flows of this class produce fluctuations in our stock of bullion to a considerable extent, and it is against these that the Currency system ought to provide an available fund. Our present system takes the opposite course, attempts to prevent the fund from being used, and disorganises commerce, at the expense of the mercantile and labouring classes, in order to counteract a wild supposition—a false assumption!

The error appears to have arisen from the ambiguousness of the term *value:* the essential difference between intrinsic and extrinsic value has been overlooked. The two propositions—1. That gold flows because it is the cheapest mode of remittance; and, 2. Because it is of greater value in the country to which it is flowing—have been treated as synonymous. They are, however, perfectly distinct propositions. It does not follow that because gold is the cheapest mode of remittance at one time, and not at another, that in the meantime its intrinsic value has fluctuated: the value of the things in which gold is measured may have changed, and this is really the case. Bills of Exchange constitute *an* extrinsic value of gold; and the reason why, in this instance, gold is exported, is that the bills have risen in value to such a degree, that it has become cheaper to export gold than purchase bills for remittance. This one extrinsic value of gold has fallen; but this arises, as the term extrinsic implies, from the intrinsic value of the bills, and not of the gold having risen. In consequence of an adverse balance of trade, the demand for bills for remittance exceeds the supply; the payments to be made exceed the payments to be received, and therefore bills, which constitute the ordinary means of remittance, bear a premium; and this premium, constituting a part of their price, their price is raised. When the premium rises to that point, where it covers the expense and risk of the remittance of bullion, bullion may be sent without incurring any loss; and when the premium on bills rises above this point, the exportation of bullion becomes a profitable transaction. Bills can then be created, and gold be remitted in payment of them, at a profit; this consisting of the difference between the premium received on the bills and the cost of transmitting the bullion.

That the change is in the intrinsic value of the bills, and not in that of the gold, is evident. By intrinsic value is meant, as already stated, that value of a commodity which depends upon the cost of production, &c. of itself; any change in this value is a change in its relation to all other commodities; in other words, in all its extrinsic values. Now, applying this definition, which is clearly laid down by political economists, what do we find? It is found, as a matter of fact, that gold will exchange for precisely the same quantity of other things, (all other causes being allowed for,) as it would before the change in the relation between it and the bills took place; that all prices, or the value of commodities in Currency, will not, with this single exception, have undergone any fluctuation, which must have been the case if the intrinsic value of gold had varied. The intrinsic value of bills, on the contrary, has fluctuated; they will command more of all other commodities—all their extrinsic values have changed. The bills will exchange for more money, and a given quantity of money continuing to exchange for the same quantity of other commodities, the increased quantity of money purchased by the bills will purchase an increased quantity of general commodities, therefore *the bills* will purchase an increased quantity of general commodities. It is partly necessary to express the proposition in this syllogistic form, on account of changes in value being commonly expressed in prices. We may express the proposition in another manner, and perhaps it will be clearer. Bills have risen in value in relation to all other commodities, they will purchase more gold, corn, iron, coal, &c., and this affords presumptive evidence that the change has arisen in the intrinsic value of the bills, and not the intrinsic value of all commodities; and as we find that specific causes have acted on the value of the bills, we have demonstrative proof that the change has really occurred in the intrinsic value of the bills.

The other proposition, that gold flows because it is of greater value in the country to which it is flowing, involves a change in its intrinsic value, and is therefore an entirely different proposition; and not only have I shown that in this particular instance it is not true, but we have previously seen that constant changes in the value of gold do not take place.

Again, I repeat, I am not exaggerating. The fallacy of confusion referred to is to be repeatedly met with in the writings and evidence of the defenders of the system. The following extract will serve the double purpose of supporting this point, and also of corroborating my statement of the theory:—

"The operation of the Act of 1844 is this, that the Bank notes, in other words, the money of the country, must decrease as the drain of bullion goes on. That de-

> crease in the money of the country must augment its value; that augmentation of its value must produce two effects; one is, that it causes a temporary rise in the rate of interest to which the Bank must conform; and the other is that it induces the bullion merchants of this country to write to all their correspondents abroad to say, 'Money, in relation to all other things, has become more valuable in this country than it was, therefore in your transactions with us remit money in preference to other things;' and in that way the exchanges are soon rectified."—*Lord Overstone's Evidence before Commons Committee*, 1857. 23651.

Now, this supposed correspondence is a pure fiction of the imagination; the exchanges would indicate the fact if it existed. It is here distinctly stated, that "money in relation to *all other* things has become more valuable in this country;" and as I have shown, this is a false assumption, it is the bills, "in relation to all other things," which "have become more valuable."

The system creates pressures and panics, and forcibly reduces prices, by disorganising the credit system, for the purpose of rectifying a depreciated Currency. I have proved that the assumed depreciation is an unfounded and false supposition, and that gold flows from one country to another on an entirely different principle. If there existed only occasional exceptions to the assumptions laid down, the system, in not providing for those cases, would be monstrous; but what are we to think of a series of assumptions, which even the most favourable statement of facts does not constitute them exceptions alone the rule!

V. In the next place the theory involves the assumption, that the system of regulation based upon it is the only method by which we can be protected from a complete drain of the precious metals. It is thus stated—

> "When temporarily disturbing causes turn the balance of foreign payments against us, the only possible way in which the natural course of mercantile dealings can rectify the inequality is by a diminution of imports, or by an increase of exports. But imports cannot be diminished, nor exports increased, unless there should be a decline of prices, and a decline of prices cannot occur while the mercantile dealings of merchants, manufacturers, and traders continue to be aided by unlimited accommodation."—*Lord Overstone, Tracts, &c.*
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> "With a metallic Currency in circulation, no danger of total suspension can arise. As a portion of the metallic money was exported, the quantity of that which remained being diminished, the value of it would proportionately be increased, and consequently, a limited proportion only of gold in circulation could be drawn out of the country by a foreign demand. The effect of an adverse exchange must be the same, when it acts upon a mixed Currency of gold and paper, provided this mixed circulation is so regulated that the amount of a purely metallic circulation would vary."—*Thoughts on Separation of the Departments of the Bank of England, by Lord Overstone, p.* 245.
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> "But if paper be not contracted on this principle, the security for the certain stoppage of the drain is lost. Suppose the paper circulation to be thirty-six millions, against which twelve millions of bullion are held in reserve. Suppose, further, this amount of circulation be excessive as compared with the currencies of other countries, and that, consequently, a drain of bullion ensues. If, under these circumstances, the paper be contracted as the bullion goes out, this contraction will soon equalize the value of our Currency compared with that of other countries, and thus the drain will be stopped. But, if the paper circulation be not contracted in correspondence with the decrease of the bullion, there can then be no certainty that the value of the currencies will be thus equalized, and, consequently, there can be no security that bullion may not be entirely drained out."—*Lord Overstone.*

These extracts fully illustrate the purely hypothetical character of the theory, and if its supporters had confined themselves to the intellectual exercise which the theory affords, there would have been no harm done; but, unfortunately, they have substituted it in the place of facts, and have founded on this basis, a system which deals with one of the most important of human affairs.

This assumption is based on the prior assumptions that gold is constantly fluctuating in value, and that all flows arise from a depreciated Currency. These have both been proved to be false; and, therefore, this one falls to the ground. All drains do not arise from a depreciated currency; and, therefore, this assuption is erroneous. It treats as a universal or sole cause what we have found does not even exist; and I know not under what class of fallacies logicians would place this error. It is generally admitted, that to treat a particular as a universal is a most grave error; but what are we to think of this assumption which treats not particulars but nonentities as universals?

To proceed, however, we know as a common matter of fact, that drains of gold exist, and also that extraordinary drains cease; as, therefore, they do not cease from the assigned cause, they must cease from some other cause or causes; and accordingly, a reference to facts proves this to be the case.

Commerce contains principles of correction or counteracting tendencies to all disturbing causes; it is a complicated set of phenomena, which, acting and reacting on one another, preserve it, in the long run, in a state of equilibrium. In the case in question, a drain of gold evolves forces which have a direct tendency to arrest its progress. The efflux, we have seen, takes place when the exchanges are so much against this country, that bills bear a premium. Now, this premium acts as a stimulus to exportation, and an obstruction to importation. Suppose, for the sake of illustration, that when the exchange between here and America is at par, the price of iron in this and in the American market is such that the export would merely pay the expense without leaving any profit on the transaction. If the exchange was, now, to turn against this country in favour of America, to such an extent that bills rose to a premium of 2 per cent. on the London exchange, this premium would constitute a direct encouragement to the trade in iron. The exporter drawing a bill on America, would receive the premium of 2 per cent., and this would constitute a profit on the transaction. In this manner, an unfavourable exchange stimulates exports; and the assumption that nothing but a destruction of credit with its consequent evils can produce this effect is fallacious; the support of credit is the only sound plan by which the desired effect can be attained.

On the same principle, a favourable exchange stimulates imports and discourages exports. The exporter has then to pay a premium which the importer receives.

This important principle is pointed out by all political economists, and is so generally admitted, that it is scarcely necessary to adduce authority upon the point. I will, however, quote Mr. Mill and Mr. M'Culloch :—

> "Bills are at a premium because a greater money value has been imported than exported; but the premium is itself an extra profit to those who export; besides the price they obtain for their goods, they draw for the amount, and gain the premium. It is, on the other hand, a diminution of profit to those who import. Besides the price of the goods, they have to pay a premium for remittance; so what is called an unfavourable exchange is an encouragement to export, and a discouragement to import; and if the balance due is of small amount, and is the consequence of some merely casual disturbance in the ordinary course of trade, it is soon liquidated in commodities, and the account adjusted by means of bills, without the transmission of bullion."—*J. S. Mill, Principles of Political Economy, vol.* 2, *p.* 165.
>
> "When the exchange is really unfavourable, the price of commodities imported from abroad must be so much lower than their price at home, as not merely to afford, exclusive of expenses, the ordinary profit of stock on their sale, but also to compensate for the premium which the importer must pay for a foreign bill, if he remit one to his correspondent, or for discount, added to the invoice price if his correspondent draw on him. A less quantity of foreign goods will, therefore, suit our market when the real exchange is unfavourable; and fewer payments having to be made abroad, the competition for foreign bills will be diminished, and the *real* exchange rendered proportionately favourable. In the same way, it is easy to see that a favourable real exchange must operate as a *duty* on exportation, and as a bounty on importation.
>
> "It is thus that fluctuations in the real exchange have a necessary tendency to correct themselves. They can never, for any considerable period, *exceed* the expense of transmitting bullion from the debtor to the creditor country. But the exchange cannot continue either permanently favourable or unfavourable to this extent. When favourable, it corrects itself by restricting exportation and encouraging importation; and when unfavourable, it produces the same effect by giving an unusual stimulus to exportation, and by throwing obstacles in the way of importation. The true *par* forms the centre of these oscillations, and although the thousand circumstances which are daily affecting the state of debt and credit prevent the ordinary course of exchange from being almost ever precisely at par, its fluctuations, whether on one side or the other, are confined within certain limits, and have a constant tendency to disappear."—*J. R. M'Culloch, Commercial Dictionary.*

The principle of correction here pointed out, is a beautiful instance of the harmonies of social organization. If left unimpeded by legislation, it acts with rapidity and unerring certainty. It comes into operation on every favourable or unfavourable balance of trade; and as the exchanges are never at par at every point at the same moment, it is always in operation. It is as efficient to correct balances arising from a depreciated currency, if such occur, as those which arise from deficient harvests, &c. It ever tends to put labour into a state of greater activity, and to enable us to repair the damages which great destructions, or withdrawals of capital create. It tends directly to keep the commercial machine in operation, and by a sound monetary system these tendencies may be realized.

The present system ignores the existence of the principle, and instead of protecting, destroys credit. It places different classes of the community in a state of antagonism with each other; debtors against creditors, sellers against buyers; it throws labour out of employment, and all these fearful effects for a mere fallacy. Is it not astonishing, that we should for so long have governed our monetary system on such a mass of blunders!

Independently of the principle of correction pointed out, extraordinary drains of gold will naturally cease. They arise from specific causes, and the extent to which they will proceed, depends entirely upon the nature of those causes. Drains arising from deficient harvests, vary in degree according as the cause, a deficient harvest, varies; and the same remark applies equally to all other drains.

It has been urged by the theorists, as a reason why we should place limits on the power of issue, that there exists a tendency to the substitution of paper in the place of gold, and as this is partly connected with the assumption under consideration, I will briefly explode it. I admit the existence of the tendency, but I also recognise and admit the counteracting tendencies. In the first place bankers counteract the tendency: they maintain a stock of gold; and we have already seen that the rate of interest is regulated by the state of the central reserve, rising as the reserve falls, and falling as the reserve rises; and the rate of interest acts on the price of securities and the balance of trade, in the manner already pointed out. The tendency is also counteracted by preventing the issue of notes below a certain denomination; coin being, by this plan, rendered indispensible. This

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There are an innumerable number of assumptions, which the extent of these pages does not admit of my dealing with. They are all reckless assertions, erroneous generalizations, or fallacies of confusion; and, like those which we have examined, are based upon an erroneous ratiocination from the economical truth that supply and demand determines the market price of commodities. I will, therefore, confine myself to the examination of one more of this series of suppositions.

VI. The system involves the assumption that prices are determined by the quantity of note currency and gold alone.

If prices are affected by numerous causes, then the exchanges will also be so affected. The system treats all flows of gold as if they were produced by the same cause; and is, therefore, unsound, prices being affected by a thousand causes. As already pointed out, not only does the system treat an assumed particular as a universal, but this assumed particular not existing in the cases supposed, it treats a nonentity as a sole or universal cause.

The assumption is a complete inversion of facts. Instead of the note and gold currency determining prices, prices partly determine the quantity of this currency. Instead of expansions in this currency preceding rises in prices, the rises in prices precede the expansion; and the relation of cause and effect is not from currency to prices, but from prices to currency. Even if the assumption was as true as it is false, it would not support the system. All other species of paper currency stand in precisely the same relation to prices as bank notes do; cheques, bills, drafts, &c., perform the function of currency to a far greater extent than bank notes, and are subject to far greater fluctuations; if, therefore, the assumption was true, the system would be unsound or imperfect in not regulating the other species of currency. It is, however, entirely unfounded. Paper currency is merely a form of credit, and constitutes but a small part of the entire fund of credit at any time in use, and credit is merely a conditional element in our commerce; it is necessary to our present system constituting part of our arrangements, and if left alone prices are not determined by it, but by supply and demand, present or probable. I say if left alone; for, if tampered with, it produces fearful effects. A destruction of credit, we have already seen, depresses prices, &c.; but, correctly speaking, it is not credit that produces these effects, but the absence of credit caused by its destruction—an important difference.

Mercantile men do not purchase and give high or low prices solely because they have the power of doing so; but because, possessing the power, either by credit or otherwise, they see or think they see reason to believe that they are making a good investment. If prices depended entirely on the power of purchase, how is it that we have often the two phenomena co-existing—a plethora of capital seeking investment, and low rates of interest, and low prices? The assumption is absurd and untenable, and were it not that it constitutes a part of the theory, it would not be worthy of notice.

The fact that prices are affected by a number of things, renders the further examination of this assumption unnecessary. I will, however, adduce a few authorities on the point.

"In point of fact, and historically, as far as my researches have gone, in every signal instance of a rise or fall of prices, the rise or fall has preceded, and therefore could not be the effect of, an enlargement or contraction of the bank circulation."—*Tooke, Regulation of Currencies, p.* 85.

"I see no reason for the doctrine—that according as there are more or fewer bank notes, there will be more or less of other descriptions of credit. If, indeed, we began by assuming, as I suspect is tacitly done, that prices are regulated by coin and bank notes, the proposition maintained will certainly follow; for, according as prices are higher or lower, the same purchases will give rise to bills, cheques, and book credits, of a larger or smaller amount. But the premise in this reasoning is the very proposition to be proved. Setting aside this assumption, I do not know how the conclusion can be substantiated. The credit given to any one with whom he deals does not depend upon the quantity of bank notes and coin in circulation at the time, but on their opinion of his solvency; and the willingness of a dealer to *use* his credit depends on his expectations of gain, that is, on his opinion of the probable future price of his commodity; an opinion grounded either on the rise or fall already going on, or on his prospective judgment respecting the supply and rate of consumption."—*J. S. Mills, Principles of Political Economy, p.* 71, *vol.* 2.

"It does not, indeed, follow that credit *will* be more used because it *can* be. When the state of trade holds out no particular temptation to make large purchases on credit, dealers will use only a small portion of the credit power, and it will depend only on convenience whether the portion which they use will be taken in one form or in another.

"Credit has, in short, the same purchasing power as money; and as money tells upon prices—not simply in proportion to its amount, but to its amount multiplied by the number of times it changes hands—so also does credit. And credit transferable from hand to hand is in that proportion more potent than credit, which only performs one purchase."—*Vide vol.* 2, *p.* 60–61.

"Applications to the Bank for extended discount occur rarely, if ever, in the origin or progress of extensive speculations in commodities. These are entered into, for the most part if not entirely, on the first instance, on credit for the length of term usual in the several trades." The preceding is quoted by Mill from Tooke. "So that," continues Mill, "the multiplication of bank notes and other transferable paper does not, for the most part, accompany and facilitate this speculation, but comes into play chiefly when the tide is turning, and difficulties begin to be felt."—*Vide p.* 62.

The error committed by the application of the assumption we are examining is of a most glaring character; and it is impossible to conceive how rational men could ever have fallen into such a blunder. Even if prices were affected by fluctuations in the quantity of Currency, yet as they are also affected by innumerable other causes, the system in ignoring all those causes, and being blindly based on the assumption that the effects created by them are created by *one* entirely different cause, is indefensible. In the face of the most common facts, and evidence to the contrary, it treats a particular, or rather assumed particular, as a universal or sole cause, and is deliberately made to disorganise commerce and inflict great losses on the community, for the purpose of rectifying an assumed depreciation, which not only does not exist, but which there is not the slightest reason to suppose exists; while, on the contrary, there are the most palpable facts, which demonstrate that the drain of gold has arisen from other causes, the probable extent of which can even be calculated. A more irrational system than this could not be invented; it is fallacious in every point, and it is a disgrace to the age that it should for a moment exist.

VII. We have now seen that the fundamental error of the theory consists of the erroneous application of the principle of supply and demand in respect to gold. The advocates of the system have been compelled by the pressure of logic to make the fallacious assumptions. Without them the system was untenable; and they, therefore, either intentionally or from ignorance, granted all the necessary conditions, and in doing so, ignored the existence of facts, or, in some cases, assumed the existence of facts, and, in others, bent facts in the most fantastic manner, in order to make them conform, or rather apparently conform, to their hypotheses.

As I have already stated, the doctrine and the principle were not created by the Act 1844, but were held and applied a long time previous to that date. The most eminent defenders of the system of regulation have been merely disciples of the doctrine, and they appear to have adopted it without even questioning it, and have not in any single instance attempted to prove its soundness. They have invariably based all their reasonings either on the facts created by the system, or on the theory on which the system itself is based; in other words, they have adopted the common method by which all error is defended, of begging the question, or reasoning in a circle. The opponents of the system having also admitted the premises, have failed to detect the error and confute its supporters. And thus it is that in the latter end of the nineteenth century, the greatest commercial nation in the world governs her monetary concerns, on a system based on a series of gross fallacies.

The theory is one of those fallacies with which the works of the early political economists abound, and is purely hypothetical. It is based on a series of suppositions which, if granted, warrant the conclusion. Ricardo has based an elaborate theory of foreign trade upon it; and our more recent writers upon the science have adhered to the plan of treating the subject in a very abstract manner, which has, I believe, contributed more than anything else, to render the science unpopular. This hypothetical theory is thus laid down by J. S. Mill :—

> "The value of money, other things being the same, varies inversely as its quantity; every increase of quantity lowering the value, and every diminution raising it, in a ratio exactly equivalent."—*Principles of Political Economy, vol.* 2, *p.* 16.
>
> "If we assume the quantity of goods on sale, and the number of times those goods are resold, to be a fixed quantity, the value of money will depend upon its quantity, together with the number of times that each price changes hands in the process."—*Vide*, p. 17.
>
> "Consequently, the amount of goods and of transactions being the same, the value of money is inversely as its quantity multiplied by what is called the rapidity of circulation."—*Vide, p.* 17.
>
> "If the whole quantity of metal in circulation was doubled, prices would be doubled; if it was increased one-fourth, prices would rise one-fourth. There would be one-fourth more money, all of which would be used to purchase goods of some description. When there had been time for the increased supply of money to reach all markets, or to permeate all the channels of circulation, all prices would have risen one-fourth. But the general rise is independent of this deficiency and equalizing process. Even if some prices were raised more, and others less, the average rise would be one-fourth. This is a necessary consequent of the fact that a fourth more money would have been given for only the same quantity of goods. General prices, therefore, would in any case be a fourth higher."—*Vide p.* 15.

The propositions here laid down, apparently without any proviso whatever, constitute, as I have already shewn, the very basis on which our system of regulation is founded. Mark, however, that even if these propositions were true, the system would still be unsound, because it assumes that this is the only cause of drains of gold, fluctuations of prices, &c., which is not true, and it would therefore still be unsound, in treating a particular as a universal.

Mr. Mill, however, distinctly states, that these propositions are purely hypothetical, and the tendency of his great work is to prove their absurdity. He says :—

> "The proposition which we have laid down respecting the dependence of general prices upon the quantity of money in circulation, must for the present be understood as applying only to a state of things in which money, that is, gold or silver, is the exclusive instrument of exchange, and actually passes from hand to hand at every purchase, credit, in any of its shapes, being unknown."—*Vol.* 2, *p.* 19.

These remarks reduce the preceding propositions to a complete state of hypothesism (if I may venture to introduce the latter term).

Mr. Mill completely overturns the theory in other parts of his work :—

> "The introduction of money does not interfere with the operation of any of the Laws of Value laid down in the preceding chapter."—*Vol.* 2, *p.* 9.

The following is one of the laws here referred to :—

> "The temporary or market value of a thing depends upon demand and supply; rising as the demand rises, and falling as the demand falls. The demand, however, varies with the value, being greater when a thing is cheap than when it is dear; and the value always adjusts itself in such a manner that demand is equal to supply."—*Vol* 1, *p.* 576.

This entirely confutes the doctrine of "inverse ratio," previously quoted, and as an abstract truth is perfectly sound.

The following point out the applicability of the abstract truth to gold :—

> "The quantity," speaking of money, "may be increased much more rapidly than it can be diminished; but the increase must be very great before it can make itself much felt over such a mass of the precious metals as exists in the whole commercial world."—*Vol.* 2, *p.* 28.

And again :—

> "If the supply of money imported was spent in labour, &c., it would affect general prices, but if it was invested in securities, it would flow out in the purchase of foreign securities; and, also, if the increase was met by a demand, prices would not be affected."—*Vol.* 2, *p.* 21.

J. R. M'Culloch also lays down this hypothetical theory in his edition of the *Wealth of Nations.*

The hypothesis is an absurdity, the assumed facts having never existed, and not being applicable to any state of things which we can rationally suppose to exist. It has, however, been erroneously applied to inconvertible paper currency, and the "ratio" doctrine is generally considered applicable in this instance. As this is an error, it may not be altogether useless to confute it.

If it is true that a reduction in the quantity of the circulation to the extent of one-half, will raise the value of the remaining half to the original value of the whole, then, by simply repeating the process, a single atom could be raised to any value we assume. If, for instance, the original quantity was equal in value to a million quarters of grain, then, by the process of reducing the quantity, either gradually or at once, to a single atom, this atom, according to the doctrine, would be raised to the original value of the whole mass, one million quarters of grain! And on the other hand, by doubling the quantity, the value of the original quantity would be reduced by one-half.

These assumptions clash with the most elementary laws of value, and are so utterly groundless, that it is perfectly astonishing how a

doctrine, based on such a hypothesis, should possess a single advocate, let alone the support of political economists.

I will briefly state what does determine the value of inconvertible paper currency. If issued by the Government, and if it is convertible into bonds, or, in other words, can be funded, it is virtually loan paper, and its value is partly determined by the causes which determine the value of the Government stock. The funded debt bears interest, however, whereas the notes do not; but on the other hand, the bonds are not convertible so easily as the notes, and some are convertible only at the option of the Government at any future time, while the notes will probably be paid at par in the course of a short time. These are all elements in the question, and there are several others. The paper is indispensible to a certain extent, and if the ultimate payment is undoubted, and it is only issued in moderate quantities, it will maintain its value. When, however, the quantity in circulation becomes redundant, its value gravitates towards the value of the loans, but cannot fall much below this point, so long as it can be converted into bonds. We thus see that the value of the notes cannot fall below the value of the bonds; and it is one of the most well known facts, that the value of bonds is not determined on the "ratio" doctrine. I may remark that, so long as the notes continued to be of a higher value than the bonds, they would be the cheapest method for the Government to borrow, as not only would the interest be saved, but they would also obtain a higher price for their obligations; and this tends to reduce the value of the notes to that of the bonds. If Government resist the temptation to issue notes, the value of the notes may, to a great extent, be maintained. When the notes are reduced in value, all loans are made in depreciated paper, and to the discount of the loans has to be added that of the paper; or the loans, although nominally at a premium, as measured in paper, are, owing to the low value of the paper, really at a discount. We thus see that the value of such a currency depends upon a number of causes, and it is impossible to make any general proposition on the point, with the exception that the notes cannot fall much below the value of the bonds.

The doctrine, therefore, is not even applicable to a depreciated paper currency, and as I have already said it is not applicable to any state of things which we can rationally suppose to exist.

The error appears to have arisen from the fact that the value of the notes, when it is above that of the bonds, can be reduced by redundant issues, and from this the "ratio" doctrine has been inferred. I do not know that it would even in this case hold good to the degree laid down, but it is evident that the value cannot fall below that of the bonds into which they are convertible. The moment they touch this point a fresh cause comes into operation, which is overlooked by the "ratio" doctrine. I may ask, if the value of the bonds was determined on this doctrine, what would have been the value of our funded debt, or that of the American government, at the present time!

This section must now come to a close, it has already extended far beyond the intended limit; to proceed further on this point, would be a libel on the national intelligence. The task is too painful, and nothing except a sense of duty could ever have induced me to proceed thus far. I suppose, however, experience is the great teacher of mankind, and perhaps our accumulated experience will at last enable us to acknowledge the truth. I have attempted to point it out; others will doubtless be found able to establish it.

We have seen the absolute necessity of protecting our credit system, and the effect of the contrary rule, its destruction. We have examined the theory on which the restrictive principle is based, and detected its unsoundness. An assumed particular, we have seen, is treated as a universal—the assumed particular does not practically exist—the effect produced by fluctuations in the quantity are in all cases different to those assumed—counteracting tendencies oppose those pointed out by the theory; in short, the whole series of assumptions is doubly false: first, because each one depends upon the fundamental errors in the application of the abstract truth of supply and demand; and secondly, because they are each fallacies of observation. The theory clashes with almost every rule of reasoning, and contains contradictions and false assumptions so glaring, that it is perfectly astounding how the nation should have so long been a victim to its disastrous effects. Facts and reason each loudly denounce it as a disgrace to the present age; a blunder committed for a long series of years by the greatest of commercial nations.

The remaining portion of the task is comparatively easy. The difficulties consist in the establishment of the principles, and the explosion of a fallacy; on the method of applying the principles, all may be brought to agree in the essential points. I will now at once proceed to point out, what appears to me to be a sound plan of regulating our Monetary System.

SECTION III.

I. We have seen, in the preceding sections, that the restrictive principle is in a state of direct antagonism to the interests of commerce, and that it is as erroneous in theory as it is destructive in practice. I have now to propose a system based on the great principle :—THE SUPPORT OF COMMERCE BY THE PROTECTION OF OUR CREDIT SYSTEM.

In the first place, I propose that the Bank of England, the grand centre of our credit system, be invested with the duty of supporting that system; and that in order to enable her to do so, the limits be repealed from her powers of issue.

The Bank possesses the confidence of the whole country, and her ability to support credit by this system has been repeatedly demonstrated. Being the largest Bank in the world, and having a capital of £14,553,000, and a surplus fund of upwards of three-and-a-half millions, generally holding from twenty to twenty-five millions sterling of Government securities, and being conducted by men who are practically acquainted with our commercial system, she affords perfect security to the public for her liabilities, and is especially adapted for being made the great supporter of public credit.

In addition to investing the Bank with the duty, I also propose a very simple plan by which she may be better enabled to perform that duty. As I have already pointed out, drains of gold are sometimes of an extensive character. The Bank's reserve is occasionally reduced to a low point by a combination of causes, and it is desirable to provide against the danger of a severe pressure, which these drains might create. This can easily be done. The prevention of the issue of notes in England of a lower denomination than £5 has created a large reserve of coin in the channels of circulation, a portion of which can at any time be immediately transferred into the Bank's reserve, by the temporary issue of small notes. I therefore suggest that the Bank of England be also permitted to issue £1 notes whenever her rate of discount is raised to 6 per cent., all further issue of these notes to cease when the rate is again reduced below this point, and that the notes be withdrawn from circulation when the rate falls to or below 5 per cent.

By this plan, that large quantity of gold which is in circulation, would be rendered available to meet emergencies, and the effects of

INTENTIONAL SECOND EXPOSURE

down, but it is evident that the value cannot fall below that of the bonds into which they are convertible. The moment they touch this point a fresh cause comes into operation, which is overlooked by the "ratio" doctrine. I may ask, if the value of the bonds was determined on this doctrine, what would have been the value of our funded debt, or that of the American government, at the present time!

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By this plan, that large quantity of gold which is in circulation, would be rendered available to meet emergencies, and the effects of the absorption would be these:—Suppose that before the absorption took place, the Bank's liabilities stood at £50,000,000, and her reserve at £10,000,000, or 20 per cent. on the liabilities. If the Bank was now to absorb £1,000,000 in gold, by an issue of a million £1 notes, her position would be very materially improved. She would now be able to increase her liabilities on the one hand, and her advances to the public on the other, by £4,000,000, without changing the relative proportion which the reserve bore to the liabilities at the commencement of the operation. The liabilities would now be £55,000,000, viz: the original £50,000,000, the additional £1,000,000 in £1 notes, and the additional £4,000,000 on either notes or deposits, as the case might be; and the reserve would be 11,000,000, or still 20 per cent., in proportion to the liabilities. If, instead of the extended accommodation of £4,000,000 to the public, bullion was required for export; then, the operation would have placed £800,000 at the disposal of the Bank. The remaining £200,000 being placed to the reserve; this would now stand at £10,200,000, and the liabilities would be £51,000,000; the former still bearing the proportion of 20 per cent. to the latter. The £800,000 might either be lent out on extra discounts, or be paid away in the payment of deposits; and in the latter case, the Bank would be able to part with a still greater proportion of the absorbed gold.

It would not be compulsory on the part of the Bank, to maintain a certain proportion between the reserve and the liabilities; and I merely give these figures as an illustration of the effects which the plan of absorption would produce on the Bank's power of accommodation. The very knowledge of the existence of such a plan, would have a wonderful effect on confidence, and distrust could scarcely exist in such an atmosphere. It would, probably, require a little more than a million notes to absorb £1,000,000 of gold; but, with the aid of the rest of the banking community, a very few more would suffice.

The Division of Departments would of course be abolished, and the reserve be made available against all demand. The accounts would also be published in a consolidated form. The profits on any extension in the circulation, would also be secured to the public revenue.

These measures would place the principle into perfect operation. Of the 27 sections which the Act of 1844 contains, only 3 would be repealed; and it is not necessary to repeal a single clause of the Act of 1845.

Before proceeding to point out the effects which the proposed system would produce, I will notice the principal objections which will probably be raised against it.

II. It will, probably, be objected against the proposed power being vested in the hands of the Bank, that she did not perform the duty when it was in her power to do so, previous to 1844. Against this objection, I contend that if the fact of the Bank having laboured under the universal delusion, is a valid reason against their being again intrusted with the power, we shall not be able to place the system in operation. All men, or all associations of men, must encounter the same objection; and are we to remain exposed to the most fearful evils, in consequence of such a puerile objection?

In the second place, it will probably be objected that the trust is too important to be placed in the hands of a single institution.

Now it must be borne in mind, that the Bank is the great centre and supporter of our credit system at the present time, and that this power has been repeatedly placed in her hands, with the most beneficial results. If, however, the objection should be considered valid, then we may divide the trust between the Bank of England, the Bank of Ireland, and the Bank of Scotland, and thus have a triple basis; but in this case, it will be necessary to create a reserve of gold in Ireland and Scotland, by prohibiting the issue of notes of a lower denomination than £5, and to increase the capitals of the two establishments, in order to secure public confidence, and give the public perfect security. I do not, however, consider these vast changes necessary; they might, perhaps, render the system more perfect, but they would probably excite great opposition in those countries in regard to the abolishment of £1 notes. They appear to consider these notes essential to their very prosperity, and popular delusions are not easily destroyed. I think the Bank may be invested with the full power with perfect safety; they always have evinced the greatest desire to carry out sound principles, and if a principle is given them for their guidance, the nation may depend upon its being acted upon to the very letter. Perhaps the constitution of the Board of Directors might be improved, either by a change in the rules regarding the annual retirement of a certain number of directors, the length of the term in office of the governors, or by the introduction into the direction of a few men appointed by Government. The Bank has always evinced the greatest desire to give satisfaction, and would doubtless agree to any improvements which may be suggested by the proper authorities.

These two objections relate to the mode of applying the principle. I will now briefly deal with those which will probably be made against the principle itself.

III. It will probably be contended that the power of unlimited issues dangerous. Some people appear to think that the mere permission to issue an unlimited amount, necessarily involves the actual issue of enormous quantities of notes; a reckless system of discount and credit, and tremendous speculation. These illusions have been partly created by the advocates of the restrictive principle, as a kind of extra support to their system, and, like the theory itself, they are gross absurdities. The expression, *power of issue*, has two different meanings—1. The permission to issue; and, 2. The ability to place the notes in circulation. The former is the correct sense applicable to the non-restrictive principle; the latter has been erroneously substituted in the place of it, and reduced to a complete state of hypothesism, which it is unnecessary for me here to explode. The objections are completely refuted by the mere fact, that banks have often the former power to a great extent, without the latter, and that the unlimited power, or rather permission, did not produce these effects previous to 1844. Mr. Tooke has demonstrated, and placed it beyond all doubt, that the rises in prices and speculation invariably preceded the increase of bank notes, and that the increases in the notes were not the cause but the effect; and Mr. Mill has clearly pointed out that speculation is not conducted in its origin on increased issues, but on book debts, and that the notes are only required at a subsequent stage of the speculation, when the engagements have been completely entered upon.

The Bank will not regulate her rate of discount according to her permissive power of issue, but by the state of her cash reserve. Neither is the power of affording discount the sole cause in determining their extent. The nature and safety of the bills offered is an element in the determining causes on the one hand, and the state of trade and prices is an element on the other hand. Men do not borrow merely because they can do so, but because being able, they see a good reason for so doing—two entirely different facts.

The term *speculation* has also been extensively abused by the restrictionists (this, and not curreneists, is the proper appelative of the supporters of the present system.) It has been represented as something of a wild and reckless nature; on the contrary, however, speculation is an essential part of commerce. It is speculation that regulates the distribution of commodities in relation to the abundance or scarcity; and on occasions of great deficiency in the harvests, speculation protects society from famine, by raising the prices, in anticipation of the greater scarcity, and in that manner, by reducing the consumption at an early date, spreads the deficiency over a comparatively long period. It is true that speculation occasionally assumes an extravagant spirit, but this cannot be prevented

by the monetary system. The spirit was never so great as it has been since 1844; and this simple fact renders the objection futile. Low rates of interest have a tendency to create a speculative feeling, but these low rates cannot be prevented. They arise from the abundance of capital, and unless we annihilated the laws of supply and demand, and value, which is impossible, low rates cannot be prevented. Reckless or unfounded speculations have a tendency to diminish as the laws of value become more generally understood. They also contain in themselves the principle of prevention in the losses which the recoil in prices inflicts upon the holders. It is not the duty of a monetary system to protect men from these losses; the only safeguard consists in individual prudence, and if knowledge does not succeed in inculcating this, experience will. The cry of speculation like the theory itself is nothing less than a bugbear employed to frighten a nation out of its common sense. With our enormous commerce, speculations are necessarily abundant; and as the markets are so extensive, and such a number of elements enter into the questions of supply and demand, it cannot be a very great matter of surprise if speculations should occasionally prove unfortunate. Of course, after the event has taken place, there are always plenty of people ready to cry out, that it was wild and reckless; but this cannot be admitted as an argument against the proposed system. In fact, the proposed system will annihilate a gigantic speculation. What can be more speculative than a commerce exposed to such a suspension as is pointed out in the following memorial:—

The Memorial of the Merchants, &c., of Liverpool to Lord John Russell, First Lord of Her Majesty's Treasury.

(PRESENTED IN OCTOBER, 1847),

Showeth,—That your memorialists beg respectfully to represent to your lordship the present deplorable condition of the trade, commerce, and manufactures of the country, and the imperative necessity for such immediate relief as it may be in the power of Government to afford. Produce of every description is only saleable in small quantities and at an enormous sacrifice. Bills of Exchange and the most valuable securities are inconvertible into cash even at great depreciation, except in the most insignificant amounts. Foreign orders for produce and goods cannot be executed for want of the customary facilities for the disposal of bills drawn against them. Confidence is all but annihilated; and the currency of the country is in a great measure withdrawn and hoarded.

It is needless on this occasion to inquire by what combination of causes this lamentable state of affairs has been brought about. A crisis of unparalleled severity exists, and your memorialists believe that it is in the power of Government to allay alarm and restore confidence by coming to the relief of the commercial and manufacturing classes, by a temporary advance on the credit of the country.

Your memorialists believe that it is not only the interest but the duty of Government to afford relief, inasmuch as they confidently believe that the utter prostration of the manufacturing and commercial interests cannot otherwise be prevented, whereby the labouring population will be immediately thrown out of employment, and an amount of misery and destitution witnessed, unexampled in the history of the country.

Your lordship may depend upon us when we assure you that, if the present pressure be not removed, merchants and other tradesmen of undoubted respectability, who are not only solvent, but rich, and who have merchandize and bills which under ordinary circumstances would afford ample means of meeting engagements, will inevitably be compelled to stop payment.

[Here follow the signatures of the principal merchants.]

The present system reduces our enormous trade to a state approaching reckless speculation. It renders our commerce dependent upon the presence of a stock of gold at one point, independent of the quantity in circulation, and this very point is more sensitive than all the rest! And what is still more strange, it divides this very stock in such a manner as to increase the danger a hundred fold!! The proposed system will sweep away this monstrosity, by placing our commerce on sounder foundations, enlarging our *available* metallic basis, and protecting the credit system.

The theory exploded and the objections confuted, there now only remains the task of pointing out the effects which the proposed system would produce.

IV. Commercial panics would be entirely prevented. By commercial panics, I mean phenomena similar to those which prostrated the community in 1825, 1839, 1847, and 1857: the suspension of the credit system with all its attendant disasters. These were each produced by the restrictive system, and were each dispelled by the suspension of that system, and the application of the proposed system in a less perfect form, and under less favourable circumstances; and as I believe there is not a single individual in the kingdom, who denies the effects produced by the proposed principle in those instances, it would be perfectly useless for me to enter into any elaborate discussion on this point. I have already exploded the great obstacle to this system—the theory, and all the other objections being based upon it, participate in its fall. Prevention is better than cure; and I have already proved in the course of these pages, that the proposed system has dispelled panics and will prevent them.

The rate of interest will be less fluctuating. The directors, knowing the nature of the fluctuations in the reserve, would be guided by experience and reason, and would avoid those constant fluctuations

which characterize the present system. Mercantile transactions would, consequently, be less a matter of uncertainty; large and distant engagements attended with less risk; and that sensitiveness to alarm which is so injurious to commercial operations would be destroyed. A probable rise in the rate of discount has at all times a tendency to increase the demand for discount just before the rise takes place; but, those tremendous demands which were made in 1825 and 1857, arose entirely from the fear which the restrictive principle had created. The credit system was shaken to its very centre, and all rushed to the Bank for support: the proposed system will consolidate credit, and render it free from this distrust, and consequently pressures of this nature will not occur, danger will not exist. The mere presence of an unbounded reserve of credit will, to a great extent, render its unemployment unnecessary. It was not the actual want of money which created the panics, but the presence of the restrictive principle, which by placing the whole system on a small basis, produced the fear and created the panics. The moment the proposed principle was on those occasions adopted, panic vanished. In the words of Mr. Gurney—

> "Before two o'clock this relaxing letter had come down, and very generally the orders for money were withdrawn; they said, 'We do not want the money now—we do not want the money now—there is no occasion to pay it.' Sums of money were immediately offered us, and people began to have confidence in the use of the notes which they had. Before the week was over, we had to go and ask the Bank, as a favour, to let us repay the money we had borrowed."—*Commons' Report*, 1848.

Commerce would be regulated by the various tendencies which it contains. Adverse exchanges would immediately set into operation the principle of correction—the premium on the bills stimulating exports and diminishing imports. Buyers would not have any artificial inducement to suspend purchases; sellers would not be hurled into the market; prices would be free from those ruinous fluctuations which panics produce; the mercantile classes would not be sacrificed for a fallacious theory; and surrounding nations would not again be sufferers from our imperfect monetary system. Those destructions or losses of capital which arise from deficient harvests, &c., would no longer add evil to evil by suspending the whole machine of commerce, but they would set our productive powers into a state of greater activity, and thereby tend to repair the damages which they had created. One more great advance would have been made in the scale of progress, and the monetary system of the financial centre of the world would be more in keeping with its proud position, and with the advancing intelligence of the age.

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